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ABSTRACT

Generally, construction projects undertaken by school districts in New York State are financed in part by state aid. The Education Department's Facilities Planning unit approves state aid for school-district construction projects outside New York City. This report presents findings of an audit that evaluated whether the Unit management's oversight assured that school construction projects were cost effective and in compliance with the State Building Code. The State of New York Office of the State Comptroller found that although unit oversight provides assurance that building code requirements are met, supervision is not intended to evaluate the cost effectiveness of school construction projects. As a result, project costs may be higher than necessary. To significantly reduce both the construction costs and building aid payments, the unit is recommended either to use a value engineering process to review school building plans; to use standardized school building plans; or to set limits on the total amount of building aid available. The report concludes that it would not be cost-effective to transfer unit oversight responsibilities to local governments. Appendices contain a list of major contributors to the report and the comments of Education Department officials. (LMI)

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State of New York
Office of the State Comptroller

Division of Management Audit

Report 96-D-4

Mr. Carl T. Hayden
Chancellor, Board of Regents
The University of the State of New York
State Education Department
Albany, NY 12234

Dear Mr. Hayden:

The following is our study addressing the operations of the State Education Department's Facilities Planning Unit.

This study was performed pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law. We list major contributors to the report in Appendix A.

Office of the State Comptroller
Division of Management Audit

July 10, 1996

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Executive Summary

State Education Department
Facilities Planning Unit

Scope of Study

Generally, construction projects undertaken by school districts are financed in part by State aid. Such aid, which will total about $550 million in the 1995-96 fiscal year, must be approved by the State Education Department's Facilities Planning Unit (Unit). The Unit must also approve the detailed building plans for projects outside New York City. These plans are reviewed by Unit staff for compliance with the State Building Code. During the 1994-95 school year, the plans for about 1,600 projects were approved by the Unit. In 1995, the Governor proposed that local building inspectors, rather than Unit staff, be responsible for ensuring that school construction projects comply with the State Building Code, but this proposal was not enacted by the Legislature.

Our audit, which was undertaken in response to a request by the Division of the Budget, addressed the following questions about the operations of the Unit:

- Does Unit management's oversight provide assurance that school construction projects are cost-effective and in compliance with the State Building Code?
- What methods can be used to reduce school construction costs and State building aid?
- Would transferring Unit oversight responsibilities to local governments improve the efficiency and effectiveness of school construction oversight?

Observations and Conclusions of Study

We found that while Unit management oversight does provide assurance that State Building Code requirements are met, this oversight is not intended to evaluate the cost-effectiveness of school construction projects. As a result, project costs may be higher than necessary, leading to higher State building aid payments than necessary. We identified several methods that could be used to significantly reduce both the construction costs and the building aid payments. We also conclude that it would not be cost-effective to transfer Unit oversight responsibilities to local governments.

Since the 1988-89 fiscal year, the annual State building aid provided to school districts has almost doubled. We identified several possible reasons for this increase. For example, the repayment of construction

debt has been accelerated by some school districts, the Education Law was changed in 1991 to allow school districts to increase the percentage of construction costs that are reimbursed by State aid, and the review of building plans conducted by the Unit is not intended to evaluate the cost-effectiveness of the plans. We identified procedures that could be used to reduce both school construction costs and State building aid. (see pp 3-4)

For example, the Unit could use a process called value engineering to review school building plans. This process is widely used in both the private and public sectors, and has been shown to reduce construction costs by 5 to 20 percent. Such a cost reduction would result in savings of at least $20 million to $83 million for the projects approved by the Unit in the 1994-95 school year. Since about half of school construction costs, on average, are reimbursed by State aid, the State aid for these projects would be reduced by at least $10 million to $41 million. We note that value engineering is used for school construction projects in at least six other states. (see pp 5-7)

School construction costs might also be reduced if standardized plans were used for school buildings. Such plans are used by the Office of General Services in constructing State facilities. Unit officials told us they have tried to encourage the use of standardized plans, but school districts have not been receptive to such plans. (see pp 7-8)

We also note the Governor has proposed that the total amount of State building aid paid in any year be limited. Now there are no such limits, as once a construction project is ruled eligible for aid by the Unit, the State is obligated to pay its share of the costs. The State building aid for any individual project can account for as much as 95 percent of the project's approved expenses. We determined that at least eight other states set limits to building aid. (see p 8)

We estimate the annual cost of Unit oversight to be about $700,000. In comparison, based on our review of fees charged by 41 local building inspectors, we estimate that if the building plans approved by the Unit in the 1994-95 school year had been approved by local building inspectors instead, the school districts would be charged as much as $3.4 million in fees. We therefore conclude that transferring Unit responsibilities to local governments would not be cost-effective. We also note that local governments often lack the staffing to handle this responsibility and local building inspectors tend to be less qualified than Unit staff. (see pp 9-11)

Comments of Department Officials

Department officials agreed with our conclusions and issues for consideration.

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Introduction

Background

Cities, towns and villages in New York State are generally required to administer and enforce New York's Uniform Fire Prevention and Building Code (Building Code). However, for construction projects undertaken outside New York City by school districts and Boards of Cooperative Educational Services (BOCES), the State Education Department (Department) is responsible for administering and enforcing the Building Code; local government building inspectors outside New York City have no jurisdiction over school construction projects.

School construction projects may be eligible for State aid. On average, about half the costs of such projects are reimbursed by the State, although the amount of State aid received for any individual project varies considerably.

The Department's Facilities Planning Unit (Unit) assesses all proposed school district construction projects for State building aid eligibility, including projects in New York City. If the Unit authorizes a project, a school district outside New York City submits detailed plans and specifications for approval. A Unit architect or engineer reviews the plans and specifications for compliance with the Building Code. Such compliance is intended to provide protection against the hazards of fire and inadequate building construction. If no deficiencies are found, the Unit approves the project and issues a building permit, and construction may begin. When construction is completed, the Unit issues a certificate of occupancy, which authorizes the building for use. For projects in New York City, the detailed plans and specifications are reviewed by the New York City School Construction Authority, which also issues the building permit. The certificate of occupancy is issued by various City agencies.

State building aid provided to school districts has increased steadily. In fiscal year 1988-89, State building aid payments totaled about $300 million. By 1995-96, building aid had increased to more than $550 million.

In the 1995-96 Executive Budget, the Governor proposed transferring the Unit's construction oversight responsibilities to local government building inspectors. Under this plan, the Department's responsibility for school construction would be limited to processing State building aid. The

Legislature did not adopt this proposal. However, the Division of the Budget reduced the Unit's staff from 24 to 18. The Unit's budget for the 1995-96 fiscal year is about $900,000.

Scope, Objectives and Methodology of Study

At the request of the Division of the Budget, we reviewed the Unit's operations for the period April 1, 1994 through September 30, 1995. The objectives of our study were to (1) determine whether Unit management's oversight provides assurance that school construction projects are cost-effective and in compliance with the Building Code, (2) identify methods that could be used to reduce construction costs and State building aid and (3) determine whether a transfer of the Unit's responsibilities to local governments would improve the efficiency and effectiveness of school construction oversight.

To accomplish our objectives, we reviewed Unit records, interviewed Unit and other Department staff, and analyzed Unit procedures for overseeing school construction projects. We also researched alternatives for reducing construction costs, and contacted 41 local building departments by telephone to learn about their expertise, staffing and fees. In addition, we contacted various interested parties to obtain their opinions on the potential advantages and disadvantages of transferring construction oversight from the Unit to local governments. Finally, we contacted other states by telephone to learn about their methods for monitoring and funding school construction.

Response of Department Officials

We provided a draft report of the matters contained in this report to Department officials for their review and formal comment. Their comments have been considered in preparing this report and are included in Appendix B. Department officials agreed with our conclusions and issues for consideration.

State Building Aid Increases

State building aid provided to school districts almost doubled between the 1988-89 and 1995-96 fiscal years, increasing from about $300 million to more than $550 million. Officials from the Unit and the Department's General Aid and Services Unit identified the following possible reasons for this increase:

- the formula for determining State building aid was made more generous,
- some school districts have accelerated the repayment of their construction debt,
- school buildings are aging, and
- costs in general have risen due to inflation.

During the 1991-92 fiscal year, the Legislature revised the portion of the State Education Law relating to building aid. For example, before the revision, construction of pre-kindergarten space was not eligible for building aid and any aid for remodeling projects was based on 50 percent of the actual costs. However, after fiscal year 1991-92, the construction of pre-kindergarten space and all remodeling costs became eligible for building aid. Department officials could not estimate the extent to which building aid increased as a result of these changes.

The Legislature also revised the Education Law to allow school districts to increase the percentage of construction costs that are reimbursed by State aid. This change has greatly increased building aid payments to school districts. Department officials estimate that this option increased building aid by $48 million for fiscal year 1994-95 and will increase building aid by $77 million in 1995-96. Unit officials informed us that the Department has repeatedly proposed legislation to eliminate this option, but the Legislature has not enacted this change to the Education Law.

Building aid has also increased because some school districts have used bond anticipation notes (BANS) to accelerate their repayment of debt from construction projects. This accelerated repayment may allow school districts to save money by reducing the total amount of interest they pay, and in the long term, may reduce the total amount of building aid paid by the State. However, in the short term, the amount of building aid paid by the State is increased. Department staff do not maintain data concerning the effect of BANS on State building aid reimbursement. However, Unit officials estimate that using BANS rather than long-term

financing could account for $70 million to $85 million of the estimated $558 million in State building aid for 1995-96.

According to Unit officials, the aging of school buildings may have contributed to the increase in State building aid. The average age of school buildings, outside New York City, is 38 years. Unit officials estimate that districts need to replace buildings every 80 to 100 years. Major modernizations usually occur every 50 to 70 years. Unit officials believe that many school buildings are due for renovation or replacement. Department and Unit officials could not estimate the effect of aging buildings on building aid increases.

Unit and Department officials also believe part of the building aid increase since the 1988-89 fiscal year results from inflation. The officials could not estimate the extent to which the increase can be attributed to inflation, but noted that prevailing wage rates have increased by 3 percent annually.

We also conclude that the type of review done by Unit staff can have an impact on the cost of construction projects and the related amount of State building aid. The Unit's current review procedures provide assurance that Building Code requirements are met, but, do not evaluate whether the proposed project costs are reasonable or can be reduced. As a result, projects with unnecessary costs may have increased the State building aid paid to districts. In the following sections of this report, we consider methods that can be used by the Department to address the costliness of construction projects.

Issue To Be Considered

1. The Department and the Legislature should analyze the formula for calculating State building aid to determine whether refinements are needed to address the continuing growth of this type of aid.

Methods for Controlling Costs

Unit staff are responsible for reviewing plans and specifications to ensure compliance with the Building Code and Department guidelines. Unit staff do not review projects for cost-effectiveness or their impact on State building aid, and the Education Law does not require such an analysis. However, such an analysis could result in lower construction costs along with a reduction in the related State building aid payments. We determined that the following approaches could be taken by the Unit in conducting this kind of analysis:

- Value Engineering
- Life Cycle Cost Analysis
- Use of Standardized Plans

Each of these approaches could reduce the costs incurred by the school districts without compromising the districts' interests. We note that, in taking any of these approaches, the Unit could be assisted by other State agencies with responsibilities for construction projects. We also note that, separate from any reductions in project costs, State building aid could be reduced through a proposal made by the Governor to limit the amount of building aid paid during any year.

Reducing Project Costs

Value engineering is a formal method of analyzing a project's functions to identify and evaluate alternatives for providing those functions in the most cost-effective manner, without sacrificing quality. The objective of value engineering is to optimize both the costs and the performance of a facility. Value engineering results in the removal of costs that do not enhance the project's quality, useful life, appearance, or other customer required features. Value engineering is a proven tool for cost reduction. Many Federal agencies and major corporations have adopted value engineering, and some state and local government agencies also use this approach.

For example, in 1983 the New York City Office of Management and Budget set up a value engineering program in which all capital projects with estimated construction costs of more than $15 million were to be subject to value engineering studies. In 1989 the Office reported savings of about $134 million on 15 different projects whose original estimated construction costs were about $1.8 billion. This represented an average cost reduction of 7 percent. Since the cost of doing the value engineering studies on these 15 projects was about $1.2 million (the studies were

conducted by private contractors, the Office achieved $110 in savings for each dollar invested in value engineering.

Additionally, since 1984 the Army Corps of Engineers has used value engineering in designing military and civilian facilities, such as offices and maintenance buildings. The Corps has an in-house value engineering team that reviews all projects with estimated construction costs of more than $2 million. The Corps reported doing 111 value engineering studies between 1985 and 1990. These studies reportedly resulted in approximately $186 million in savings and a savings-to-cost ratio of $56 to $1.

As recommended in our prior audit reports 93-S-6 and 92-S-78, value engineering, or some aspect of it, is also used by the New York State Dormitory Authority and Office of General Services. As described in our follow-up report 95-F-7 at the Office of General Services, project design costs have been reduced through the use of value engineering.

Research shows that construction costs can be significantly reduced by the use of value engineering. According to the historical results of using value engineering in construction programs, the cost reduction will usually range between 5 percent and 20 percent.

To estimate how much could be saved in school construction projects in New York State, we considered the projects that were approved by the Unit during the 1994-95 school year. While projects costing $849 million were approved, routine projects such as roof replacements would not benefit significantly from value engineering. We therefore eliminated such projects from our consideration and focused instead on the projects categorized by the Unit as "new buildings/new additions." The estimated cost of these projects was $414 million.

Using the expected rate of savings of 5 to 20 percent, we estimate that, if value engineering were used, the cost of these projects could be reduced by between $20.2 million and $82.8 million. Since, on average, 49 percent of construction costs are reimbursed by State aid, between $9.9 million and $40.6 million in State building aid could be saved for this year alone.

Unit officials expressed concern that, because value engineering involves in-depth analysis of a project's costs and functions, delays could result from its use. They also feel that architects and engineers may resist the use of value engineering because architects' and engineers' fees are generally based on construction costs, and if these costs are reduced by value engineering, the fees will also be reduced. In addition, officials

from the Office of General Services told Unit officials that value engineering could delay projects and result in adversarial relationships among building owners, contractors and designers. Despite these concerns, Unit officials agree that value engineering could result in lower costs, and they are considering incorporating value engineering into their review process.

According to our research, value engineering can be encouraged by contractual incentives that pay contractors extra fees, reward contractors for cost-saving proposals, or allow contractors to share in any project savings. The use of such incentives can also inspire better, more economical decisions by designers.

During our review, we conducted a telephone survey to find out whether other states use value engineering for school construction projects. Seven of the 44 states contacted require, or are considering requiring, value engineering or a similar program for school construction projects. Specifically, Ohio, Utah, Washington and West Virginia require that schools apply value engineering to all major construction projects. In Illinois, school districts work closely with a capital development board that requires value engineering. New Hampshire is evaluating the use of value engineering and Minnesota reviews projects for cost containment using techniques similar to value engineering.

In life cycle cost analysis, different alternatives for designing a facility are assessed, taking into account the cost of building, operating and maintaining the facility over its entire economic life. Life cycle cost analysis is a technique used in value engineering. The Unit could use life cycle cost analysis without a complete value engineering review. Unit officials agree that this technique could result in lower costs and said that they are in the process of evaluating whether they should make use of the technique.

Unit management could also consider the use of standardized plans for school buildings as a way to reduce the costs of school construction. Unit staff could evaluate existing buildings and assess them for construction and operating cost-efficiency. School districts could then be encouraged to use the plans that have proven to be cost-effective.

Standardized plans could also reduce design costs, which typically are 7 to 11 percent of total construction costs. In the 1994-95 school year, more than $400 million in new construction and additions was approved by the Unit. If the design costs in these projects were reduced, significant savings could be realized. Unit management said that they previously tried to encourage school districts to use standardized plans.

However, school district officials did not accept this initiative. At the time that this initiative was attempted, the State was not faced with the fiscal constraints it faces currently. We discussed the use of standardized plans with officials from the Office of General Services, which has used standardized plans when constructing State facilities. The officials said that standardized plans have advantages, as construction costs tend to be lower and construction time tends to be shorter. We note that the needs and preferences of individual school districts must be balanced with the costs to State and local taxpayers. We also believe standardized plans can often be adapted to meet these needs and preferences. Standardized plans can be for the whole building or new additions. Local officials could maintain some uniqueness by choosing from a selection of outside facing material for buildings, and by altering layout plans for new additions.

Limiting Building Aid

Before a school construction project can be approved by the Unit for State building aid, the voters in the project's school district (or, in certain cities, the local board of education) must authorize both the project and a maximum cost for the project. Once district voters (or the local school board) have authorized a project and the Unit has approved the costs that are eligible for State building aid, the State is obligated to pay its share of the costs. State building aid ranges up to a maximum of 95 percent of the project expenses approved by the Unit.

In the 1996-97 Executive Budget, the Governor proposed limiting the total amount of building aid that the State would pay in any year. Eight of the 44 states we contacted limit the amount of building aid payable in any given year. We note that, for building aid to be capped annually, the Education Law would have to be changed and criteria would have to be established for ranking projects and identifying those districts that should receive building aid.

Issues To Be Considered

2. The Department should consider evaluating the cost-effectiveness of school construction projects. In particular, the Department should evaluate the merits of value engineering, life cycle cost analysis and standardized plans.

3. Should there be a limit on building aid to help control costs?

Comparing Department and Local Oversight

The Unit employs three architects and one engineer to review project plans and specifications for compliance with the Building Code. The Unit also has four project managers who are responsible for ensuring that school districts submit all the required documentation.

At the request of the Division of the Budget, we assessed the proposal to transfer the Unit's construction oversight to local officials. We analyzed the costs, professional credentials and staffing levels of 41 local departments responsible for enforcing the Building Code. We found that, generally, it would cost far more for localities to oversee school construction projects than for the Unit to oversee these projects. In addition, many local building inspectors are not as qualified as Unit staff and the staffing at many localities may not be adequate to handle this responsibility. We note the 1996-97 Executive Budget does not propose that the Unit's construction oversight responsibilities be transferred to local officials.

Cost of Oversight

The costs incurred by localities in reviewing building plans and specifications are passed on to the builders through building permit fees. These fees are generally based on either the estimated cost of construction or the square footage of the proposed project. A total of 25 of the 40 localities we contacted base their fees on the estimated cost of construction, a fixed fee schedule or square footage of the proposed project.

We found that there was a widespread variance in building permit fees charged by localities throughout the State. However, after reviewing the fee schedules at the 25 localities that base their fees on the estimated cost of construction, a fixed fee or square footage, we are convinced that it would be far more costly to have localities perform this work. Twenty of the 25 localities charged fees in excess of the average fee charged by the Unit. To provide a rough estimate of how much school districts would be charged for building permits by localities, we applied the fees charged by each of the 25 localities to the 1616 projects that were approved for construction by the Unit during the 1994-95 school year. We determined that, on average, the building permit fees for these projects would amount to over $2 million (an average of over $1,200 per project). In comparison, we estimate that, during the 1995-96 school year, the costs incurred by the Unit to issue building permits will total about $700,000 (an average of $431 per project if the number of projects approved in 1995-96 equals the number approved in 1994-95).

Even though the amounts charged by the localities would, on average, exceed the costs incurred by the Unit, if the fees charged by a few localities were unusually high, they would distort the average local fee for a building permit. If this were the case, it is possible that a significant number of localities could issue building permits at a lower cost than the Unit. However, we found that only 2 of the 41 localities we contacted could issue building permits at a lower cost than the Unit. Moreover, officials from these localities told us that their fees would not cover the costs of issuing building permits for school construction projects. Therefore, it is likely that their fees would have to be increased if they were to issue permits for such projects.

Qualifications and Experience

The Unit's three architects and one engineer are licensed professionals who have degrees in their fields, passed a qualifying examination administered by the State, and are certified by the Department of State. In comparison, the building inspectors in the 41 localities we contacted are not as qualified. In 29 of the localities, the building inspectors are certified by the Department of State, which means that they have received at least 120 hours of relevant training. In the 12 remaining localities, the building inspectors have a two or four-year degree in fire science, construction or architecture. However, only two of these localities require credentials beyond certification by the Department of State (the Village of Huntington Bay requires its building inspector to be a licensed architect or engineer, and the Town of Sparta requires its building inspector to have a two-year degree plus experience).

The Unit's three architects and one engineer have a combined 43 years of experience reviewing public school plans and specifications. In comparison, none of the building inspectors in the 41 localities we contacted have any experience reviewing public school plans and specifications.

We therefore conclude that, if oversight for public school construction were shifted to localities, local building inspectors would have to receive additional training. This training process would take time and would increase the localities' costs.

Staffing Levels

We determined that, on average, the Unit's three full-time architects and one full-time engineer took about six weeks to review and approve a public school construction project. (Department officials told us they have reduced this average processing time to 25 days.) This period includes the review of initial plans and specifications, contacts with the design architect, and a review of follow-up plans and specifications.

We assessed the staffing levels for the building inspectors at the 41 localities we selected. Most of these building inspectors work part-time, some as little as three to five hours per week. Only 12 of the 41 building inspectors work full-time. Officials at many localities told us they do not have full-time building inspectors because their localities have small populations and little or no new construction.

Since Unit staff work full-time, it may take local part-time building inspectors significantly longer than Unit staff to review and approve a public school project. Such delays could result in added costs to the school districts. To prevent such delays, the localities could hire additional building inspectors or increase the number of hours the inspectors work. However, this would also increase the localities' costs.

Issue To Be Considered

4. The Unit Should continue to do the work it has in the past and should consider expanding its services as suggested in this report.

Major Contributors to This Report

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THE STATE EDUCATION DEPARTMENT

EXECUTIVE DEPUTY COMMISSIONER OF EDUCATION
THE NEW YORK STATE EDUCATION DEPARTMENT
ALBANY, NEW YORK 12234

June 13, 1996

Mr. David R. Hancox
Director of State Audits
Office of the State Comptroller
Alfred E. Smith State Office Building
Albany, New York 12236

Dear Mr. Hancox:

Thank you for transmitting the draft study report (96-D-4) on the State Education Department's Facilities Planning Unit. We have reviewed the report and have the following comments:

Issue 1: The Department and the Legislature should analyze the formula for calculating State building aid to determine whether refinements are needed to address the continuing growth of this type of aid.

Response: We agree with this recommendation. Facilities Planning has already incorporated this goal into the 1996-97 workplan.

Issue 2: The Department should consider evaluating the cost effectiveness of school construction projects. In particular, the Department should evaluate the merits of value engineering, life cycle analysis and standardized plans.

Response: We agree with this recommendation. Facilities Planning will work with the Regents School Facilities Advisory Committee to evaluate the merits of this recommendation.

Issue 3: Should there be a limit on building aid to help control costs?

Response: We agree to study this issue. At public hearings conducted across the State in February, we heard of the pressing need to restore school buildings to a state of good repair. Current estimates of the need to restore all school buildings to a state of good repair exceeds $10 billion. The Department will study how limited resources can best be used to restore and modernize school facilities.

Appendix B

Issue 4: The Unit should continue to do the work it has in the past and should consider expanding its services as supported in this report.

Response: We agree with this recommendation. Facilities Planning has incorporated this recommendation into its 1996-97 workplan.

We appreciate the many thoughtful recommendations in your report. In addition, the Department benefited from the information and ideas shared with staff from your audience particularly with regard to the overview of school facilities by other states.

Sincerely,

Thomas E. Sheldon

cc: Commissioner Mills
Richard Carr